Summit Snapshot: Week Of August 17th, 2020

Global Markets: The stimulus stalwart has not negatively impacted stocks yet as the S&P 500 rose again

- **U.S. Equities** were mostly positive for the week as the S&P 500 Index briefly moved to within 0.2% of its all-time high set in February. Stocks continued to rise despite the lack of a new stimulus agreement being put in place by Congress. A short-lived catalyst for stocks last week was the announcement that Russia developed an approved vaccine but was quickly revealed that it lacked extensive trials testing thus far. For the second consecutive week, value stocks outperformed growth stocks fueling beliefs that a style shift is underway. Most sectors increased led by industrials (+3.2%) and energy (+2.8%), as the former benefitted from strong gains by FedEx (FDX) and United Parcel Service (UPS) stocks. Both companies' earnings reports convincingly beat analysts' estimates despite announcing they will increase shipping costs this holiday season. Utilities (-1.8%) and real estate (-1.8%) both declined as their dividend payments no longer look as attractive when compared to long-term Treasury-bond yields. A size-and-style returns chart is shown below for a quick view of U.S. equities:

	1 Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
Large	0.9%	0.7%	0.4%	7.8%	9.1%	10.4%	-9.7%	6.1%	21.3%
Mid	1.2%	0.7%	-0.3%	9.3%	8.7%	7.8%	-10.5%	-1.2%	12.3%
Small	1.6%	0.6%	-0.4%	10.6%	9.6%	8.6%	-15.4%	-4.6%	5.3%

See 'Disclaimer' for sources

- **International Equities** recorded mostly gains in USD terms last week aside from China which fell 0.4%. This came before the next step in the U.S.-China trade negotiations that was scheduled for August 15th but was subsequently postponed. Developed international equities, as measured by the MSCI EAFE Index, rose 2.5%. Japanese equities rose again around 4.3% after polls indicate strong declines are expected for their fiscal year profits through March 2021. Emerging markets represented by the MSCI EM Index rose by 0.4%, much less than their developed counterparts.

- **Credit Markets** had a rough week, as most bonds declined across the board. This decline was largely attributable to the increase and steepening of the yield curve. The 10-year Treasury rate ended at 0.71%, an increase of 0.15% from the week prior. In fact, the spread between the 5-year and 30-year rates increased to 112 basis points, its steepest level in more than a month. Corporate bonds fell despite a strong week of new issuance, as approximately $42 billion was issued versus expectations around $30 billion. Thus far the year's total corporate bond issuance is about to surpass 2017's record year of $1.33 trillion, and it's only August. Municipal bonds have undergone extensive measures of refinancing over the past two months as states and government municipalities took advantage of the record low yields. The category also benefitted from its 14th straight week of inflows, adding $2.3 billion in total. Read some more fixed income commentary from **Piton Investment Management**: https://pitonim.com/education-and-insights/weekly-fixed-income-views-from-august-14-2020

Sustainable Spotlight: ESG fund flows surge despite downturn

- (Perspectives from our partners at Seeds) In the second quarter, U.S. sustainable fund flows continued at a record pace, reaching $10.4 billion. Total net flows for the first half of 2020 hit $20.9 billion, already nearly matching the full-year 2019 total of $21.4 billion. As the demand for investing in companies that "do the right thing" clearly continues to rise among investors, large multinational companies have gotten the message, increasingly incorporating ESG practices into their businesses. Cigarette behemoth Phillip Morris, for example, recently published a comprehensive update on ESG issues that spans 192 pages--a full 54 pages longer than the company's annual financial report. Meanwhile, as the Department of Labor continues its attempts to curtail ESG investing in retirement accounts, ESG proponents point out that regulators continue to misunderstand ESG's primary function as an added risk metric tool to better understand a company's future performance. Read about more sustainable investing details from **Seeds Investor**: https://www.seedsinvestor.com/. In other sustainable news:

  Sustainable Fund Flows in Q2 2020 Morningstar. July 30, 2020.
  ESG is Risk Management WSJ. June 29, 2020.
  How ESG Investing Captured Trillions… and ESG video CNBC. June 25, 2020.
  Is ESG Ready to take Center stage in portfolios Forbes. June 15, 2020.

Economic Data/News: Additional U.S. stimulus talks halted with no resolution, while other nations grapple with increasing new case counts spurring worries of a second wave

- **U.S.:** One week after President Trump signed executive orders into law to help on a few different economic fronts, investors were hopeful these actions would inspire Congress to reach an agreement on a new necessary stimulus bill. Instead, after a few days of no progress both the Senate and House of Representatives took a break from further discussions until at least September 8th. On a positive note, the number of reported weekly initial jobless claims fell below one million for the first time since mid-March. Also, monthly retail sales rose 1.2% in July although less than forecasted near 1.8%. Last month was the third consecutive month that retail sales increased, but some people worry it may be short lived since the $600-per-week unemployment payment benefits expired at the end of July. The consumer price index rose 0.6% through July, the largest single-month increase since 1991, and heightened existing concerns around inflation risk.

- **International:** European nations are experiencing sharp increases in new coronavirus cases, which is worrying residents of a potential second wave. At the same time, released data showed the U.K. permanently eliminated 730,000 jobs since March which could worsen if cases continue to rise and employers are forced to make modifications again. As mentioned above, Japanese firms expect their profits to fall 36% through March 2021. Outliers include Japanese auto giants, Toyota and Honda, that both forecast 64% net profit declines for the fiscal year. China released its July economic data last week, which indicated its inflation level rose for the second straight month led by higher food prices. Separately Chinese retail sales and industrial output levels were less than economists forecasted.

Odds and Ends: Gold is known as the safe-haven to invest in and is getting harder to mine, Virgin Galactic struggles to offer its promised space travel, college athletics budgets are hard hit after postponed games

- As market volatility increased during the pandemic expansion, investors looked to "safe" investments instead of equities. Gold is known as one of those safe investments, and recently surpassed more than $2,000 per ounce two weeks ago. What may arguably justify the expensive nature of this rare metal is the fact that it is becoming more difficult to mine from the ground. Most of the easy-to-get gold has been mined already implying the harder-to-get gold is better hidden, and likely more expensive to retrieve. In addition, the grade of gold that is currently being mined is getting worse. In the early 1970s, the average mine-grade was over 10 grams per ton compared to 1.46 grams per ton in 2019. Time will tell if technological advancements can make accessing this asset class more efficient.

- Although tourism has widely suffered during the pandemic, **Virgin Galactic**'s stock (SPCE) is up 61% year-to-date. Founded by billionaire Sir Richard Branson, the firm sold expensive space flight tickets to passengers and promised to bring them into the lower thermosphere once it was ready. The roughly 700 customers who already paid for their tickets received a discount at $225,000 each, but this still was not enough to soften the disappointing second-quarter results released in August. The company delayed its space travel flight from this year to 2021 in lieu of the coronavirus and hopes to generate enough revenue until then. For now, its only source of revenue is performing small engineering services at a nominal cost.

- How colleges are handling the pandemic differs based on the school and locale. Those schools which have already postponed their fall sports seasons, have laid off many of their staff and reduced salaries. Some notable conferences in the news that have postponed the fall season include the Big Ten and Pac-12, whose football programs' revenue streams determine how their other sports are run. Interestingly, the universities' budgets themselves will not be too impacted since the athletics programs maintain separate budgets from the academics. The games may end up being played in the spring if conditions allow for it, but the economic impact will surely be felt well before then.

Resource of the week:

- The pandemic and varied stay-at-home orders issued throughout the world, country, states, and even local communities differs from location to location. A business that functions based on people vacationing to different areas and booking accommodations, Airbnb was suffering in the beginning part of the pandemic. More recently as people travel again and take measured vacations, the company is making a rebound. This episode of *How I Built This with Guy Raz* interviews Airbnb co-founder and CEO Brian Chesky on how he has managed the changing dynamic while also ensuring his business follows safe, sustainable guidelines. Please feel free to submit suggested resources to smelnick@sfr1.com.

- **Podcast link**: https://www.npr.org/podcasts/510313/how-i-built-this

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update, Piton Investment Management, Seeds Investor

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This commentary was written by Craig Amico, CFA®, CIPM®, Senior Investment Analyst, Noreen Brown, CFA®, Director of Portfolio Management and Steven Melnick, CFA®, Senior Investment Analyst at Summit Financial, LLC., an SEC Registered Investment Adviser ("Summit"), headquartered at 4 Campus Drive, Parsippany, NJ 07054, Tel. 973-285-3600. It is provided for your information and guidance and is not intended as specific advice and does not constitute an offer to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. The Sustainable Spotlight portion of this report is written and provided by Seeds Investor LLC ("Seeds"). Seeds is an SEC Registered Investment Advisor which is not affiliated with Summit. The size-and-style chart returns are represented by the following indices: large cap value by Russell 1000 Value TR Index, large cap blend by Russell 1000 TR Index, large cap growth by Russell 1000 Growth TR Index, mid cap value by Russell Mid Cap Value TR Index, mid cap blend by Russell Mid Cap TR Index, mid cap growth by Russell Mid Cap Growth TR Index, small cap value by Russell 2000 Value TR Index, small cap blend by Russell 2000 TR Index, and small cap growth by Russell 2000 Growth TR Index. The Wilshire 5000 Total Market Index measures the performance of all U.S.-headquartered equity securities with readily available price data. The Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market. The Russell 2000 Index is a market-cap weighted index comprised of the smallest 2,000 companies within the Russell 3000 Index, a larger market-cap index made up of the largest 3,000 publicly traded companies in the U.S., nearly 98% of the investable U.S. stock market. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI Europe Index captures large- and mid-cap representation across 15 Developed Markets countries in Europe, covering approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The MSCI Emerging Markets (EM) Index captures large- and mid-cap representation across 26 Emerging Markets countries, covering approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Japan Index captures large- and mid-cap representation of the Japanese market, covering approximately 85% of the free float-adjusted market capitalization in Japan. The Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bonds, mortgage backed bonds, corporate bonds, and some foreign bonds traded in the U.S. The Bloomberg Barclays Global Aggregate Ex U.S. Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-denominated securities. The Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss.